

Message Text

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ACTION EB-07

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AMEMBASSY MEXICO CITY
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AMEMBASSY SAN JOSE
AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A
TAGS: EAGR, ETRD, ES
SUBJECT: COFFEE PRICES

REF: (A) STATE 302391, (B) SAN SALVADOR 1147, (C) SAN SAL-
VADOR 3462, (D) SAN SALVADOR 4413

1. SUMMARY - REPLIES TO QUESTIONS IN REF A CONTAINED IN PARA 2.
SALES IN CURRENT COFFEE YEAR REGISTERED THROUGH DEC. 14 ARE
SLIGHTLY OVER 2 MILLION QUNITALS AT AVERAGE PRICE OF \$169.53.
COFFEE COMPANY IS DISPOSING OF STOCKS. PRESIDENT OF COFFEE
COMAPNY RICARDO FALLA CACERES ESTIMATES 76/77 CROP AT 2.8
MILLION BAGS. FALLA CACERES BELEIVES CURRENT PRICES ARE IN
REALM OF FANTASY BUT BASED ON VERY REAL SCARCITY OF COFFEE,
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MARKET PSYCHOLOGY AND TACTICAL ERRORS OF ROASTERS. FALLA
SAID THAT EL SALVADOR HAS REPURCHASED 140,000 SACKS OF COFFEE
SOLD TO BRAZIL AND IS NEGOTIATING TO REPURCHASE REMAINDER.

2. FOLLOWING ARE REPLIES TO QUESTIONS CONTAINED STATE REFTTEL:

A. INTERNAL RETAIL PRICE OF COFFEE NOW \$0.68 PER POUND, DRIP GRIND. THIS IS PRICE OF COFFEE PRODUCED BY SALVADORAN COFFEE COMPANY AND ESSENTIALLY SETS MAXIMUM PRICE FOR OTHER BRANDS.

B. DOMESTIC ROASTERS USE VERY LOW QUALITY COFFEE FOR DOMESTIC PRODUCTION, OFTEN INCLUDING SUCH EXOTIC INGREDIENTS AS SORGHUM AND AVOCADO SEEDS. HIGH QUALITY COFFEE VIRTUALLY ALL EXPORTED. LOCAL ROASTERS PAY ON AVERAGE APPROXIMATELY ONE-THIRD OF INTERNATIONAL PRICE FOR COFFEE TO BE PROCESSED FOR DOMESTIC CONSUMPTION.

C. FOLLOWING ARE CURRENT COFFEE EXPORT TAX RATES, EXPRESSED AS PERCENT OF DOLLAR PRICE PER QUINTAL FOB SALVADORAN PORT:

UP TO \$30 10 PERCENT

\$30.01 - 35.00 20 PERCENT OF EXCESS OVER \$30.00

\$35.01 - 40.00 25 PERCENT OF EXCESS OVER \$35.00

\$40.01 - AND UP 30 PERCENT OF EXCESS OVER \$40.00

AT PRICE OF \$200, CURRENT EXPORT TAX RATE IS ABOUT 27 PERCENT. BEGIN LOU. INTRA-GOES PROPOSAL TO INCREASE EXPORT TAX ON COFFEE AND MAKE IT MORE STEEPLY PROGRESSIVE WAS REJECTED BY PRESIDENT MOLINA EARLY IN FALL PRESUMABLY IN ORDER TO AVOID FURTHER ANTAGONIZING PRIVATE SECTOR DURING AGRARIAN REFORM CRISIS. PROPOSAL WOULD HAVE LEFT RATES APPROXIMATELY WHERE THEY ARE FOR INTERNATIONAL PRICE UP TO \$100, INCREASED RATE STEEPLY FROM LIMITED OFFICIAL USE

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\$100 TO 150 AND GONE TO NEARLY 100 PERCENT FOR EXCESS OVER \$150. THIS OR SIMILAR PROPOSAL MAYE-EMERGE DURING NEXT FEW MONTHS. END LOU.

MINIMUM EXPORT PRICES ARE SET ALMOST DAILY BY COFFEE COMPANY AND, ACCORDING COMPANY OFFICIALS, CLOSELY FOLLOW INTERNATIONAL MARKET PRICE.

BEGIN LOU. SINCE EXPORTERS WILL REGISTER SHIPMENTS AT MINIMUM PRICE IN ORDER REDUCE TAX LIABILITY AND ALLOW FOR RETENTION OF RECEIPTS ABROAD, COMPANY IS OBLIGED TO KEEP MINIMUM PRICE AS CLOSE TO MARKET AS POSSIBLE. ACCORDING TO COFFEE COMPANY OFFICIALS NO ATTEMPT IS MADE TO LEAD MARKET. END LOU.

THERE ARE CURRENTLY NO REPEAT NO RETENTION REQUIREMENTS. COFFEE REGULATIONS FOR THE 1976/77 SEASON ALLOW EXPORTATION OF 100 PERCENT OF THE CROP.

D. PRICE TO PRODUCERS AS OF DEC. 21 WAS AS FOLLOWS:
DOLLARS PER QUINTAL CAFE ORO (EXPORTABLE) EQUIVALENT AT RATIO

OF 5 TO 1

CENTRAL EST. ALTURA \$127.60

CENTRAL ALTURA \$125.60

CENTRAL STANDARD \$122.40

E. SINCE REF B, NO FURTHER OFFICIAL MEASURES HAVE BEEN TAKEN TO INCREASE COFFEE PRODUCTION. PRODUCTIVITY IN EL SALVADOR IS REPUTEDLY HIGHEST IN WORLD AND, IN VIEW PRICES, GROWERS HAVE INVESTED HEAVILY IN FERTILIZERS, PESTICIDES, ETC., TO MAXIMIZE 1976/77 PRODUCTION. SALVADORAN PRIVATE BANKING SYSTEM IS CURRENTLY EXPERIENCING SEVERE LIQUIDITY SHORTAGE. ON DECEMBER 17, MONETARY AUTHORITIES REPORTEDLY DECIDED TO INCREASE DISCOUNT FACILITIES TO PRIVATE BANKS FOR FINANCING COFFEE HARVEST. IN EMBASSY VIEW, HARVEST WILL BE ADEQUATELY FINANCED. MINIMUM WAGE FOR COFFEE CUTTERS INCREASED 50 PERCENT IN OCTOBER. LIMITED OFFICIAL USE

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3. SALVADORAN COFFEE COMPANY REPORTS FOLLOWING SALES REGISTERED FOR COFFEE YEAR 1976/77 THROUGH DECEMBER 14:

DESTINATION	VOLUME	VALUE	AVE. PRICE	PERCENTAGE
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U.S./CANADA	758,996 QQ.	\$125.9 MIL	\$165.88	37.77
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EUROPE/OTHER	1,250,505 QQ.	\$214.8 MIL	\$171.74	62.23
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TOTAL	2,009,501 QQ.	\$340.7 MIL.	\$169.53	100
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CROP YEAR BREAKDOWN THESE EXPORTS IS AS FOLLOWS (IN QUINTALS):

1974/75	439,275
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1975/76	497,058
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1976/77	1,073,168
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ACCORDING COFFEE COMPANY OFFICIALS, THESE FIGURES SHOW WHAT EL SALVADOR IS MAKING ALL ITS COFFEE AVAILABLE TO MARKET. SALES OF 74/75 AND 75/76 CROP REPRESENT DISPOSAL OF COFFEE COMPANY STOCKS. COFFEE COMPANY PRESIDENT RICARDO FALL CACERES ESTIMATED 76/77 PRODUCTION AT 2.8 MILLION SACKS. HE SAID DRY SPELLS DURING GROWING SEASON ADVERSELY AFFECTED FLOWERING.

4. BEGIN LOU. FALL CACERES DESCRIBED CURRENT PRICES AS "IN REALM OF FANTASY" BUT INSISTED THAT THEY REPRESENT REAL SCARCITY OF COFFEE. HE MAINTAINS THAT REVIEW OF FIGURES OVER LAST TEN YEARS WILL SHOW STEADY DECLINE OF BRAZILIAN STOCKS WHILE

PRODUCTION IN REST OF WORLD REMAINED STAGNANT BECAUSE OF LOW PRICES GENERALLY PREVAILING. 1975 BRAZILIAN FROST CAPPED THIS TREND. FALLA SAID THAT 1975 FROST WAS FOLLOWED BY EXTREMELY IMPROBABLY

CHAIN OF EVENTS - WAR IN ANGOLA, DROUGHT AND FLOODS IN COLOMBIA, POLITICAL PROBLEMS BETWEEN UGANDA AND KENYA, AND GUATEMALA EARTH-LIMITED OFFICIAL USE

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QUAKE - WHICH HAD POWERFUL EFFECT ON PSYCHOLOGY OF MARKET. HE ALSO BELIEVES ROASTERS MADE TACTICAL ERROR IN NOT BUYING HEAVILY IMMEDIATELY AFTER 1975 FROST. INSTEAD THEY BOUGHT AND ARE STILL BUYING ON "HAND TO MOUTH" BASIS. ACCORDING TO FALLA, CURRENT PRICE WOULD BE FIFTY DOLLARS LOWER IF ROASTERS HAD STOCKED UP IN LATE 1975. FOR WHAT IT IS WORTH, FALLA COMMENTED THAT IN HIS VIEW CONGRESSIONAL HEARINGS WOULD RESULT IN HIGHER PRICES BECAUSE STREAM OF ADMINISTRATION AND INDUSTRY OFFICIALS WOULD EMPHASIZE CURRENT REAL SHORTAGE OF COFFEE AND MARKET WOULD TAKE NOTE.

5. IN RESPONSE TO QUERY, FALLA CACERES SAID THAT COFFEE COMPANY HAD REPURCHASED 140,000 SACKS OF COFFEE SOLD TO BARZIL (SEE REF C) UNDER "REPURCHASE CLAUSE" IN SALE AGREEMENT AND IS NOW NEGOTIATING REPURCHASE OF REMAINDER. ASKED WHY, FALLA SAID "BECAUSE YOU GUYS USG) ARE SCREWING ME ON THE QUOTA BUSINESS", AND APPARENT REFERENCE TO USG POSITION THAT EXPORTS FROM ONE PRODUCING COUNTRY TO ANOTHER WILL NOT COUNT TOWARD EXPORTING COUNTRY'S QUOTA UNDER ICA (SEE REF D). THE COFFEE COMPANY HAS ALREADY RESOLD THE 140,000 SACKS REPURCHASED SO FAR. END LOU.

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